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Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10
L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11
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C O N F I D E N T I A L SEOUL 5266

DEPARTMENT PASS TREASURY

E.O. 11652: GDS
TAGS: ECON
SUBJ: KOREA'S INTERNATIONAL ECONOMIC POLICY

REFS: A. SEOUL 4893, B. SEOUL 4842, C. PARIS 09403,
D. PARIS 11578

1. DURING AMBASSADOR SNEIDER'S FAREWELL CALLS AND IN OTHER EMBOFFS MEETINGS SUCH AS REPORTED IN REFS A AND B, IT HAS BECOME APPARENT THAT THE ROKG IS DEEPLY INVOLVED IN CREATING A NEW CONSENSUS ON ITS FUTURE INTERNATIONAL ECONOMIC RELATIONSHIPS. THE LINES ARE DRAWN BETWEEN THE INWARD AND THE OUTWARD LOOKING; THOSE WHO WOULD FOLLOW THE U.S. MODEL OF AN OPEN ECONOMY AND THOSE WHO WOULD GO THE JAPANESE ROUTE OF RESTRICTION AND CONTROL. THE OUTCOME WOULD BE CLEAR, EXCEPT FOR THE FACT THAT THE CONSERVATIVES ARE ARGUING THAT THE WESTERN CLUB WILL NOT LET KOREA IN. THE RESULT IS A STANDOFF FOR THE MOMENT, WITH SUCH CENTRAL FIGURES AS DPM NAM DUCK WOO, WHO WOULD BE THE NATURAL LEADER IN FORMING A CONSENSUS, HOLDING BACK ON A FULL COMMITMENT TO AN OPEN ECONOMY FOR LACK OF A POSITIVE
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SIGN FROM THE DEVELOPED COUNTRIES.

2. INDEED, APPARENTLY THE OPPOSITE SIGNALS HAVE BEEN RECEIVED. THE COOL RECEPTION GIVEN THE LOW-KEY OVERTURE OF THE ROKG DCM IN PARIS REPORTED IN REF C HAS NOW BEEN REINFORCED BY THE KOREANS APPARENTLY LEARNING THAT THE OECD STAFF HAS PREPARED A STUDY (PRESUMABLY THE SAME

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STUDY AS REFERRED TO IN REF D) ON SIX INDUSTRIALIZED DEVELOPING COUNTRIES (KOREA, TAIWAN, HONG KONG, SINGAPORE, MEXICO AND BRAZIL), WHICH IN SUM IDENTIFIES THEM AS DISRUPTIVE AND NEEDING TO BE CONTROLLED.

3. MANY OUTWARD-LOOKING KOREANS SEE THE NEED TO BEHAVE MORE RESPONSIBLY IN THE WORLD TRADING COMMUNITY, ALTHOUGH, INDEED, THEY HAVE ALREADY MOVED IN THIS DIRECTION. THEY HAVE CERTAINLY NOT KEPT THEIR ECONOMIC PLANS SECRET, SO THAT OTHER COUNTRIES WERE NEVER IN ANY DOUBT WHAT THEY WERE TRYING TO ACHIEVE. THEY HAVE ALSO MADE IT CLEAR THAT THEY WOULD THEMSELVES OBEY THE MANDATES OF A LIBERAL TRADE AND PAYMENTS REGIME. THE MOST RECENT EVIDENCE ON THE LATTER WAS MINISTER OF FINANCE KIM YOUNG KWAN'S PERSONAL STATEMENT TO THE AMBASSADOR THAT THEY WOULD BE LIBERALIZING THE PAYMENTS SYSTEM AND CAPITAL TRANSACTIONS AS RAPIDLY AS POSSIBLE FROM NOW ON. THIS POLICY GOES WELL BEYOND WHAT OTHERS HAVE TOLD US, MOST RECENTLY REPORTED IN REF B, OR OUR PREVIOUS UNDERSTANDING THAT THE PAYMENTS SYSTEM WOULD REALLY NOT BE CHANGED BEFORE 1981, AFTER TRADE LIBERALIZATION HAD BEEN COMPLETED. MINISTER OF COMMERCE AND INDUSTRY CHOE TOOK THE SAME LINE WITH THE AMBASSADOR. THE APPARENT ADOPTION OF SUCH A LIBERAL POSITION BY THESE TWO MINISTERS IS, WE THINK, PARTICULARLY SIGNIFICANT. WE CONCLUDE THAT SUCH ADHERENCE TO THE LIBERAL SIDE HERALDS A NEW POSTURE
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ON THE PART OF THE ROKG OFFERING A NEW OPPORTUNITY FOR THE U.S. AND THE OECD.

4. THE ROKG LIBERAL TRADERS ARE CERTAINLY AWARE THAT GETTING INTO THE OECD WILL BE NEITHER QUICK NOR EASY. WE ARE PERSUADED THEY ARE PREPARED TO PAY THE DUES AND TO GO THROUGH A NUMBER OF INTERMEDIATE STEPS. THEY REALIZE OECD MEMBERSHIP IS SOME YEARS OFF. RIGHT NOW, HOWEVER, THEY NEED SOME POSITIVE SIGNAL FROM THE U.S. WHICH WILL NEUTRALIZE THE CONSERVATIVES AND PERMIT THE ROKG TO MOVE IN THE DESIRED DIRECTION. WE BELIEVE THAT THE ISSUE WILL BE RAISED DURING THE VISIT OF MINISTER OF FINANCE KIM, AND PERHAPS ALSO DPM NAM.

5. AS AN INTERIM STEP, WE WOULD SUGGEST CONSIDERATION OF A SUITABLE BILATERAL FORUM IN WHICH TO DISCUSS KEY ECONOMIC RELATIONS WITH KOREA. THE OLD INTERNATIONAL ECONOMIC CONSULTATIVE GROUP SERVED LARGELY THE TASK OF AID CONSIDERATION. PERIODIC MEETINGS AT THE SUB-CABINET LEVEL WITH THE VICE MINISTER OF EPB WOULD PERMIT DISCUSSION OF KEY ECONOMIC ISSUES AND PROJECTIONS. SUCH A FORUM WOULD AFFORD US A REGULAR MEANS TO INFLUENCE

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KOREAN ECONOMIC POLICY AT A CRUCIAL STATE AS WELL AS SERVE
AS AN EARLY WARNING MECHANISM TO FLAG AND SOLVE PROBLEMS
BEFORE THEY REACH A CRITICAL POINT. ESSENTIALLY, SUCH
A FORUM WOULD GIVE RECOGNITION TO THE FACT THAT MIDDLE
ECONOMICS LIKE KOREA HAVE REACHED A STAGE WHERE THEY
MUST BE TAKEN SERIOUSLY, URGED TO LIBERALIZE, AND NOT
STIFFLED BY PROTECTIONIST EFFORTS.
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